



# SUBMISSION

Abatement Incentives Prior to the Commencement of the  
Australian Emissions Trading Scheme

cool nrg International Pty Ltd  
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**cool nrg International Pty Ltd**

**Australia Head Office** 269 Stewart Street Brunswick East, Victoria 3057 Australia  
Phone +61 3 9387 2964 Fax +61 3 9387 0299

[www.coolnrg.com](http://www.coolnrg.com)

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### Introduction

cool nrg International Pty Ltd (cool nrg) welcomes the opportunity to provide feedback to the Department of Prime Minister and Cabinet on the issue of abatement incentives prior to the commencement of the Australian Emissions Trading Scheme (AETS).

This submission will deal primarily with issues arising in section 3 of the Early Abatement Incentives Discussion Paper – *Positive Incentives to Undertake Additional Abatement*. cool nrg's views are as follows:

- Early action to reduce emissions is critical in efforts to combat climate change and should therefore be strongly supported and facilitated through effective government policy.
- Demand side energy efficiency is a highly cost effective source of abatement. In addition, undertaking residential energy efficiency has the further benefits of lowering energy costs, thereby insulating households against potential increases in electricity prices resulting from emissions caps, and engaging communities at a practical level in acting on climate change.
- The absence of a national energy efficiency target scheme, and an inability to conduct activities in a covered sector once the AETS is operational, mean that early action incentives may provide the only imminent opportunity for demand side energy efficiency and abatement to be undertaken Australia-wide.

In order to facilitate residential energy efficiency prior to the commencement of the AETS cool nrg proposes the following policy measures:

- Provide a reasonable length crediting period to ensure the full abatement value of demand side activities is recognized and rewarded.
- Ensure that these credits are treated as eligible compliance certificates within the emissions trading scheme.
- Implement proper accounting procedures, such as those used by European nations to engage in JI projects, to avoid double counting.
- Establish protocols based on existing, approved Greenhouse Friendly methodologies for the distribution of energy efficient lighting.

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### About cool nrg International

cool nrg is a purpose driven, for profit enterprise that cuts residential CO<sub>2</sub> emissions through rapid, large scale energy efficiency programs. In 2006 the cool nrg team was involved in an Australian campaign that delivered a free pack of six energy-saving light bulbs to 500,000 householders free of charge under the New South Wales Greenhouse Gas Abatement Scheme (GGAS).

In early 2008 cool nrg will deliver two single day campaigns that will distribute five million energy-saving light bulbs free to households in the UK. Using a variety of carbon trading and energy efficiency frameworks cool nrg will deliver further large-scale energy efficiency projects around the world in 2008.

cool nrg has offices in Melbourne, San Francisco, London and Mexico City.

### Energy Efficiency & Early Action Credits

cool nrg strongly supports the proposal that abatement activity occurring within a covered sector prior to the commencement of emissions trading generate early action credits, and that these credits be converted into emissions permits. Further, there should be no limit applied to the number of early action credits recognized, and such abatement should be considered when setting emissions caps in the initial phase of the scheme.

Each of these measures will increase the likelihood of abatement activity occurring prior to the commencement of the scheme. There do however, remain significant barriers to the implementation of residential energy efficiency under the proposals put forward in the discussion paper.

#### *Benefits of Residential Energy Efficiency*

A number of energy efficiency measures in the household are extremely cost effective. Despite this, well understood barriers exist that have inhibited their implementation. With the addition of a price on carbon, several simple measures can be provided to households at zero or close to no cost. A price on carbon of between \$10 and \$20 provides significant incentive for households to take up energy efficient products at scale generating significant low cost abatement. Carbon priced at the lower end of this spectrum is well below the predicted price of permits under an emissions trading scheme.

In addition to being a source of low cost abatement, residential energy efficiency also reduces household electricity costs. Savings for households installing six energy

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efficient light bulbs and a low flow showerhead (reducing the amount of hot water required) can save the average family up to \$150 annually on their energy bills. Given the potential for energy price rises resulting from the introduction of emissions caps and trading, opportunities to mitigate resulting impacts on households should not be overlooked.

Because of the practical nature of undertaking activities in one's own home, residential energy efficiency also becomes a compelling tool in engaging communities, giving people the power to act and shifting thinking on climate change action.

### *Crediting Period*

As noted in the discussion paper, the short crediting period available to eligible activities in covered sectors will naturally limit the number of early action credits issued. However, further than this, this short crediting period will not provide adequate economic incentives to stimulate energy efficiency initiatives. Given the ongoing policy deliberations, it can not realistically be expected that early action projects will be accredited and operational any earlier than the middle of 2008. If emissions trading commences between 2010 and 2011 (depending on the position of the newly elected government), it will create a crediting period for early action within covered sectors of only 1.5 to 2.5 years. Very few if any new abatement activities within covered sectors will become economically viable with such a short period in which to accrue carbon credits. Failure to award demand side energy efficiency, or other potential project types, a full crediting period (up to 10 years under CDM rules) will significantly reduce the amount of low cost abatement generated during the pre-emissions trading period.

There is no incentive, once emissions trading commences for energy generators to undertake any energy efficiency activities on the demand side in an effort to reduce their liability. The complexity of accounting for efficiencies on the demand side and attributing them to individual installations, means that once emissions trading commences only supply side efficiency options will be considered.

cool nrg therefore recommends that PM&C consider the application of extended crediting periods for demand side energy efficiency activities started prior to the commencement of emissions trading. This action will provide the required economic incentives for project developers to undertake energy efficiency actions in the residential sector, bringing with it the benefits outlined above.

### *Double Counting*

cool nrg agrees with the principle outlined in the Discussion Paper that any early action credits issued be taken into consideration when setting emissions caps. The scenario

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outlined above, whereby project developers initiating projects prior to the commencement of emissions trading receive a crediting period that would extend into the compliance period for liable entities, would require appropriate accounting measures to be established to prevent double counting of emission reductions.

If energy efficiency project developers were claiming early action credits that resulted in a reduced liability for generators without a commensurate reduction in permits allocated to this sector there would be a double counting of emission reductions.

The Joint Implementation (JI) framework provides a suitable precedent for accounting for project based emission reductions within sectors covered by emissions caps and trading. Under the auspices of the Kyoto Protocol a number of European nations have created specific 'set-aside' or reserves of allowances for JI projects undertaken in sectors covered by emissions caps. These reserves, and the methodologies for their calculation are detailed in European nations' National Allocation Plans (see for example the Romanian NAP, [http://ec.europa.eu/environment/climat/pdf/nap\\_romania\\_annex.pdf](http://ec.europa.eu/environment/climat/pdf/nap_romania_annex.pdf)).

The Discussion Paper proposes to convert early action credits to emissions permits and reduce the pool of available credits available for allocation by a commensurate amount. Such a system could continue for early action projects that continue to create credits once trading has commenced, just as occurs under the JI framework.

Methodologies already approved under Greenhouse Friendly provide a mechanism by which energy efficiency credits can be easily quantified in advance thereby creating certainty regarding the number of allowances to be deducted from those allocated to the electricity generation sector.

### *Establishing Energy Efficiency Protocols*

cool nrg supports the proposal outlined in the Discussion Paper that Greenhouse Friendly be used as the administrative and accreditation framework governing the early action and offset credits. In addition, the creation of rules based protocols for certain project and technology types will provide certainty for developers, and significantly reduce the time taken to accredit and verify new project activities.

To date, the AGO has accredited two abatement providers to engage in the distribution of energy efficient lighting (CFLs) to households. In addition, the AGO has provided formal guidance on the development of CFL projects (this guidance is provided as an attachment to this submission). Based on the work already undertaken by the AGO and project developers, it would appear logical that a protocol be developed for the distribution of energy efficient lights. This would save time and costs for the development early action projects in the area of demand side abatement.

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The nature of the methodologies approved by the AGO, as mentioned above, also allow for energy efficiency abatement to be easily quantified in advance, facilitating accurate accounting of set-aside or reserve allowance requirements thereby avoiding double counting of emission reductions. The use of a deemed savings approach, as approved under Greenhouse Friendly, is widely accepted in energy efficiency schemes in OECD countries, but not currently recognized under CDM methodologies (although a small-scale deemed methodology for CFLs proposed by the World Bank is currently being considered by the Executive Board). Despite this, the tight time frames involved and the need for accurate quantification of projected abatement makes a deemed approach an ideal solution for early action projects.

### Conclusion

Developing effective government policy that facilitates early action to reduce emissions is a critical step in addressing the risk posed by dangerous climate change. The proposed policy framework outlined in the Discussion Paper goes some way to achieving this, however, several aspects need to be amended in order to facilitate activity in the demand side energy efficiency sector. cool nrg believes that PM&C should consider the following policy proposals:

- Provide a reasonable length crediting period to ensure the full abatement value of demand side activities is recognized and rewarded.
- Ensure that these credits are treated as eligible compliance certificates within the emissions trading scheme.
- Implement proper accounting procedures, such as those used by European nations to engage in JI projects, to avoid double counting.
- Establish protocols based on existing, approved Greenhouse Friendly methodologies for the distribution of energy efficient lighting.

These policy mechanisms will facilitate substantive demand side abatement activity. In the absence of an alternative national energy efficiency target, or the ability to conduct new projects under covered sectors once emissions trading commences, early action incentives may provide the only imminent opportunity for demand side energy efficiency and abatement to be undertaken Australia-wide.

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Please contact:

Philip Cohn

03 9387 2964

[phil.cohn@coolnrg.com](mailto:phil.cohn@coolnrg.com)